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Los Angeles

April 14, 1997

William F. Caton, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: Ex Parte Presentation -- In the Matter of Federal-
State Joint Board on Universal Service (CC
Docket No. 96-4345)

Dear Secretary Caton:

Enclosed for inclusion in the public record are two copies of our written ex parte presentation in the above proceeding. These materials were sent to Chairman Hundt, Commissioners Chong, Ness and Quello, State members of the Joint Board, and the following FCC staff: John Nakahata, Tom Bausberg, James Casserly, Daniel Gonzalez, Jim Coltharp, Kathleen Levitz, Cathy Sandoval, Regina Keeney and Mindy Ginsburg.

Sincerely,

Betty Jo Toccoli
President - CSBA

enclosure

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America's Small Business Speaks Out

**The Economic Impact of Changes in
the Nation's Telecommunications System**

**THE RESULTS OF THE 1997
BUSINESS TELEPHONE USER POLL**

Prepared for

**Office of Advocacy (SBA)
National Small Business United (NSBU)
California Small Business Association (CSBA)**

Under the Direction of

California Small Business Association

Prepared by

**The Resource Group
Riverside, California
©April 12, 1997**

America's Small Business Speaks Out:

The Economic Impact of Changes in Our Nation's Telecommunications System

Executive Summary

Overall, this study has identified the following:

- There are some differences in the rates paid and envisioned impacts of increases in the costs of telephone service by urban-based and rural/suburban based small businesses.
- Any increase of 25% or more in monthly charges would be viewed as having some negative impact on a business' livelihood, the size of its workforce, or the number of telephone lines it has.
- Increases of 100% or more in monthly charges would definitely result in small businesses reducing their number of telephone lines and, for 1-in-3, reducing their workforce in order to pay for such increases.

Summary Chart of Impact According To Size of Increase in Telephone Costs

	<i>All Businesses</i>	<i>Urban</i>	<i>Rural/ Suburban</i>
<i>Impact of 25% increase in costs . . .</i>			
Major negative effect on business	11.3%	11.5%	10.6%
Would cause reduction in workforce	4.2	4.6	3.4
Median number of lines decreased:	2.0	2.0	2.0
<i>Impact of 50% increase in costs . . .</i>			
Major negative effect on business	35.4%	38.5%	32.1%
Would cause reduction in workforce	16.8	17.7	16.1
Median number of lines decreased:	2.0	2.0	2.0
<i>Impact of 100% increase in costs . . .</i>			
Major negative effect on business	60.6%	65.4%	55.7%
Would cause reduction in workforce	35.3	35.4	35.4
Median number of lines decreased:	3.0	3.0	3.0

With these findings as a backdrop, it seems particularly important that pending changes in America's telecommunication system consider the impact of such changes on the nation's small businesses and the varying impact of urban vs. rural small companies and employers.

Introduction:

The landscape of America's telecommunication's industry and policies is undergoing change. Among the potential changes anticipated are the bundling, pricing, and delivery of business telephone services. Changes in the structure, pricing, and delivery of business telephone services certainly are of interest to each of over 12-14 million companies in America. Clearly, they are of intense interest to America's small businesses.

Using the Department of Labor's definition of a small business as being one with 500 or less employees, by some estimates nearly 93% of the nation's businesses are small businesses. Using the Small Business Administration's definition of 350 or less employees, some 82% of America's businesses are small. By any standard, given the number of businesses in the nation, any changes in business telephone service packaging or pricing has the potential of impacting millions of small companies.

The Office of Advocacy (Small Business Administration), National Small Business United (NSBU) joined with California Small Business Association (CSBA) to commission this independent study to ask the nation's small businesses how they currently used business telephone service and how changes in the pricing or packaging of business telephone services might affect their economic livelihood.

CSBA played the administrative role and commissioned The Resource Group (TRG) to conduct the independent study. TRG is a California state certified small business data collection and research enterprise. The company routinely undertakes county and state government-sponsored studies, polls, and censuses. TRG created and conducted a poll among business telephone users April 1-11, 1997 and secured the views of 502 geographically/ industry diverse business owners. Because of the importance of this topic area, the data have been analyzed, a report produced, and findings transmitted within 48 hours of the close of fielding. Thus, for key readers and national policy-makers reading this document, the data are less than one week old!

Methodology:

A sample universe was created from approximately 1,000 attendees to the recent White House Conference on Small Business, about 1,600 members in the NSBU information network, 500 CSBA legislative council members and program affiliates, and 350 members among several regional small business groups. A 6-minute self-administered survey was created. Businesses comprising the survey universe were directed an instrument by fax. A goal of 500 responding businesses was achieved with a 502 business owner response rate by the deadline date. The area codes listed on the returned fax sheets indicated that businesses participated from every area of the country and scores of states. Responses were received from businesses in Maine to Tennessee to Montana to New York to California to Alaska to Florida and states in between.

The instrument allowed owners to self-identify as small businesses. Only those surveys from small businesses were inputted. Business owners were provided the opportunity to indicate if their businesses were located in urban sites or rural/suburban sites. The term "rural/suburban" site was utilized in recognition that many companies (and individuals) located in rural communities tend to indicate they reside in suburban (or even urban) locations if their business is located "in town." In reality, their town is rural and their location is rural.

To mitigate such potential confusion, the "rural/suburban" category was created to more appropriately capture a rural-based business.

Findings:

Demographics of Responding USA Small Businesses.

Table 1: Percentage of Urban vs. Rural/suburban Respondents

Responses from urban-located and rural/suburban-located small businesses were nearly evenly divided. Some 49% indicate they are urban-based and 51% note they are rural/suburban-based.

Urban-located responding companies	49%
Rural/suburban-located responding companies	51

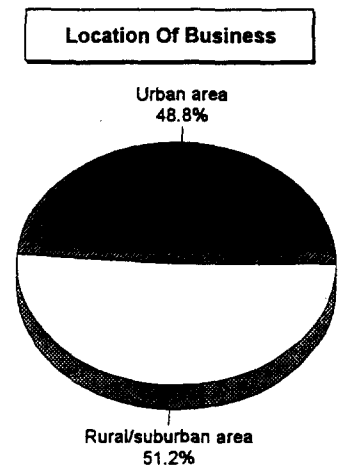
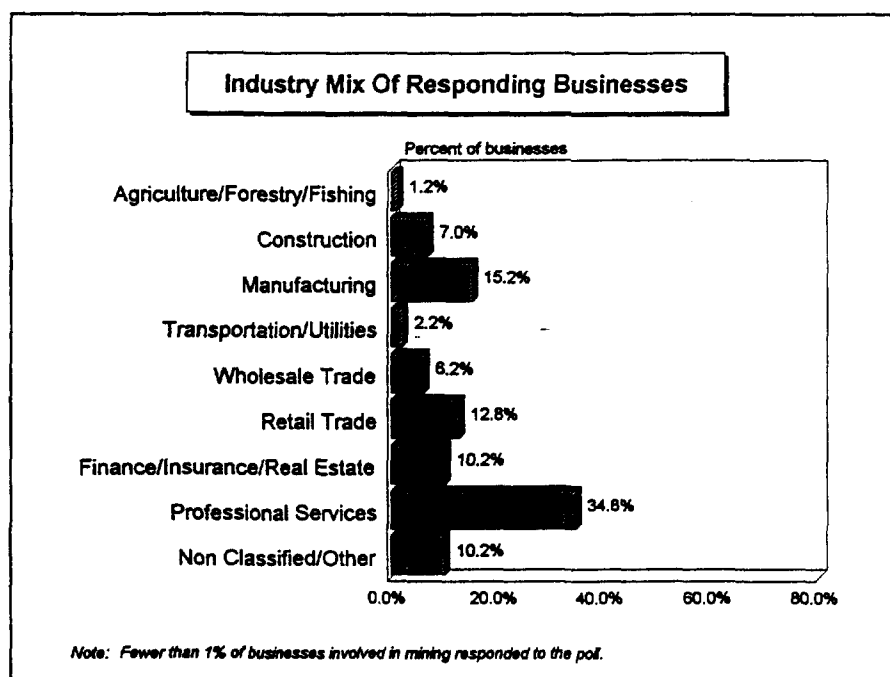


Table 2: Business Clusters Represented



Consistent with other studies indicating that the nation's small businesses cluster around professional services, retail trade, and finance/insurance/real estate professions, the respondents to this business telephone usage poll represent those sectors primarily, with some representation across all of the standard industrial clusters.

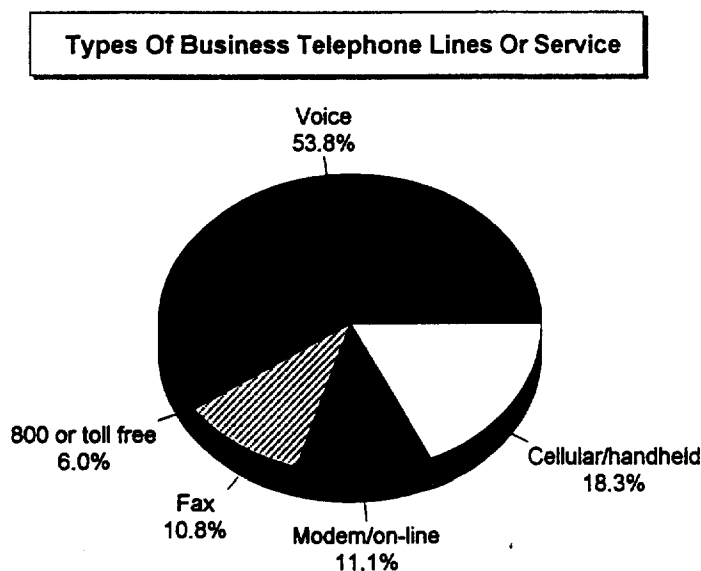
Typical Configuration and Types of Business Telephone Lines/Service.

Table 3: Typical Number Of Business Telephone Lines For Small Businesses

Typical Number Of Business Telephone Lines	
1 - 3 lines	13.5%
4 - 6 lines	25.5
7 - 10 lines	24.3
11 - 15 lines	15.5
16 - 20 lines	8.0
21 - 30 lines	6.0
31 - 40 lines	3.6
41 lines or more	3.6
Median number of lines:	8.0

America's typical small business pays for eight lines per month. Just under 4-in-10 small businesses have 11 or more lines they use for business purposes.

Table 4: Typical Configuration/Types of Business Telephone Lines/Service



The typical small business has 4 lines for voice services, one line dedicated for a fax, one line dedicated to a modem, one cellular/car telephone line, and almost one full line for 800 service.

Median Number Of Business Telephone Lines By Type

General voice/talking/multiple purposes	4.0
800 or toll free	1.0*
Fax	1.0
Modem/Internet/on-line services	1.0
Cellular/handheld/car phones	1.0

* Slightly less than 1.0

Table 5: Type of Telephone Service for Home-Based Small Businesses

A small percentage indicated they were home-based or at least operated an office from their homes. For this cohort, 3-in-5 utilize a business telephone line in their homes for business activities.

Use residential lines for business purpose	40.9%
Use business lines for business purpose	59.1

Type Of Telephone Service For Home-Based Businesses

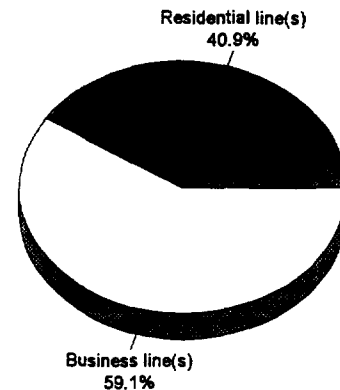
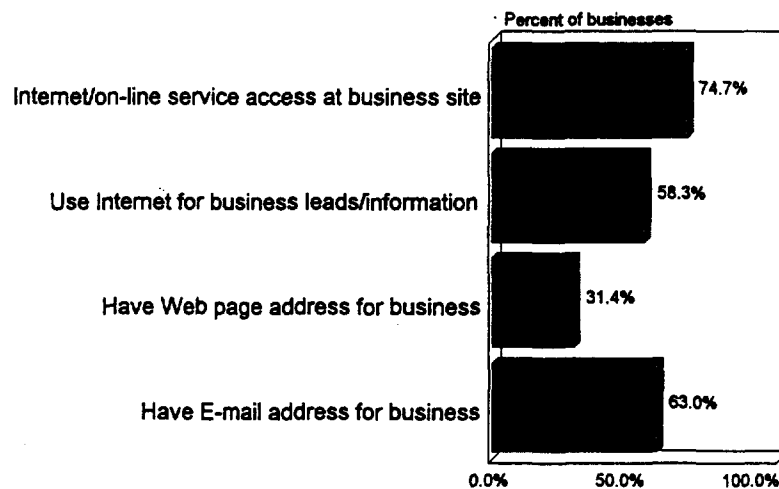


Table 6: "Information Highway" Utilization By America's Small Businesses

Communications Usage For Business



	<i>All Businesses</i>	<i>Urban</i>	<i>Rural/ Suburban</i>
Have access to Internet/on-line services at business site	74.7%	52.3%	47.7%
Use Internet for business leads or information collection	58.3	52.7	47.3
Have Web page for business	31.4	52.0	48.0
Have E-mail business address	63.0	52.7	47.3

Interestingly, some 3-in-4 small businesses report they have access to on-line services or the Internet via an ISP or other provider. Looking at access and usage on an urban vs. rural basis, no real differences emerge. Business owners in both settings tend to recognize the importance of this technology and information source.

What America's Small Businesses Now Spend on Monthly Telephone Service.

Table 7: Typical Current Monthly Telephone Expenses of Small Businesses

	<i>Monthly Average For Local Service</i>	<i>Monthly Average Spent For Long Distance Service And Calls</i>
<i>All businesses</i>	\$ 400	\$ 300
<i>Location of business:</i>		
Urban-area	\$ 400	\$ 250
Rural/suburban-area	400	400
<i>Type of business:</i>		
Agriculture/Forestry/Fishing	\$ 314	\$ 359
Construction	500	250
Manufacturing	404	775
Transportation/Utilities	300	200
Wholesale Trade	936	1,200
Retail Trade	313	225
Finance/Insurance/Real Estate	300	249
Professional Services	400	238
Non Classified/Other	400	350

Responding small businesses were asked to indicate their typical monthly bill for local business telephone services and for business long distance services. Overall, the typical small business spends \$400 monthly for telephone services and \$300 monthly for long distance services, for a combined \$700 per month.

There are substantial and sometimes significant differences depending on the location of the company and the type of small business. Overall, however, both urban-based small businesses and rural/suburban-based small businesses report spending an identical median \$400 monthly

for telephone service. For long distance services, the trend changes. Urban-based companies report spending a typical \$200 per month and rural/suburban-based small businesses say they spend \$400 in a typical month for long distance services.

There are also difference among types of small businesses. For example, smaller construction companies report typical monthly bills for telephone service of about \$500 and long distance bills totaling an average \$250. Wholesale trade companies spend \$936 on their typical monthly telephone bill and \$1,200 for monthly long distance services.

Clearly, there are different levels of telephone and long distance bills incurred by America's small businesses depending on their geographic location and the nature of their business.

Economic Impact of Increases in Cost of Business Telephone Service.

Small businesses were asked to project the economic impact on their companies if their monthly telephone costs increased. They were asked to indicate any impact on their livelihood, number of telephone lines, or number of employees due to specific increases in their monthly telephone costs.

First, small businesses were asked to identify any economic impact envisioned by a 25% increase in their telephone bills.

Table 8: Impact if Monthly Business Telephone Costs Increase 25%

	<i>All Businesses</i>	<i>Urban</i>	<i>Rural/ Suburban</i>
<i>Impact on number of telephone lines . . .</i>			
Keep same number of lines	75.2%	81.7%	69.9%
Increase number of lines	0.6	0.9	0.4
Decrease number of lines	24.1	17.4	29.7
<i>Median number of lines decreased:</i>	2.0	2.0	
<i>Impact on business livelihood . . .</i>			
Minimal/no effect	33.4%	28.1%	38.1%
Moderately negative	55.3	60.4	51.3
Major negative effect	11.3	11.5	10.6
<i>Impact on size of workforce . . .</i>			
Minimal/no effect	75.2%	74.2%	76.2%
Might cause reduction	20.6	21.1	20.4
Would cause reduction	4.2	4.6	3.4

Overall, 3-in-4 small businesses would keep the same number of lines they now have. One-in-four indicate they would have to reduce the number of lines by a median 2 business telephone lines. Most report a perceived minimal to moderate negative impact. Nearly all agree that a 25% increase would not require them to reduce the size of their workforce.

There are some differences between the views of urban vs. rural/suburban-based small businesses. About 17% of urban businesses indicate that a 25% increase in costs would force them to decrease the number of telephone lines to their business. Some 30% of rural based companies reported that a 25% increase would cause them to reduce the number of telephone lines to their place of business.

On the issue of workforce reduction, all businesses agree, irrespective of location. Some 21% of urban based businesses say a 25% increase in phone costs might cause them to consider reducing their workforce, and 20% of rural/suburban-based small businesses report that such increases would cause them to consider workforce reductions.

Table 9: Impact if Monthly Business Telephone Costs Increase 50%

	<i>All Businesses</i>	<i>Urban</i>	<i>Rural/ Suburban</i>
<i>Impact on number of telephone lines . . .</i>			
Keep same number of lines	44.7%	47.5%	42.7%
Increase number of lines	0.9	0.9	0.9
Decrease number of lines	54.4	51.6	56.4
<i>Median number of lines decreased:</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
<i>Impact on business livelihood . . .</i>			
Minimal/no effect	13.8%	11.3%	15.8%
Moderately negative	50.8	50.2	52.0
Major negative effect	35.4	38.5	32.1
<i>Impact on size of workforce . . .</i>			
Minimal/no effect	51.4%	50.3%	52.7%
Might cause reduction	31.8	32.0	31.2
Would cause reduction	16.8	17.7	16.1

A 50% increase in telephone costs clearly begins to weigh on the minds of small business owners. Just over 54% of all businesses indicate this increase would necessitate a reduction in the number of telephone lines to their business. They report that an increase of 50% would force them to reduce their telephone service by at least 2 lines.

At the 50% increase level, differences between the views of urban vs. rural-based small businesses tend to be minimized. Small businesses in both geographic settings generally agree on approximately the same level of negative impacts and consequences that would result from 50% increases to their typical monthly telephone charges.

One-in-six urban and a nearly identical one-in-six rural small businesses indicate such an increase would cause them to reduce their workforce in order to be able to meet the additional monthly telephone costs.

Table 10: Impact if Monthly Business Telephone Costs Increase 100%

	<i>All Businesses</i>	<i>Urban</i>	<i>Rural/ Suburban</i>
<i>Impact on number of telephone lines . . .</i>			
Keep same number of lines	31.9%	35.3%	29.9%
Increase number of lines	0.9	1.4	0.4
Decrease number of lines	67.2	63.3	69.7
Median number of lines decreased:	3.0	3.0	3.0
<i>Impact on business livelihood . . .</i>			
Minimal/no effect	9.5%	7.9%	10.9%
Moderately negative	30.0	26.6	33.5
Major negative effect	60.6	65.4	55.7
<i>Impact on size of workforce . . .</i>			
Minimal/no effect	39.0%	39.7%	38.2%
Might cause reduction	25.7	24.9	26.4
Would cause reduction	35.3	35.3	35.4

Perceived increases of 100% in monthly telephone bills were considered by small business owners to have the potential of major negative consequences to their firms. Nearly seven-in-ten of all small businesses surveyed indicate such an increase definitely would force them to decrease the number of business telephone lines they have in service. Some 63% of urban-based businesses and 70% of rural-based businesses made this determination. Each business type reported they would have to reduce their service by a median 3 business telephone lines.

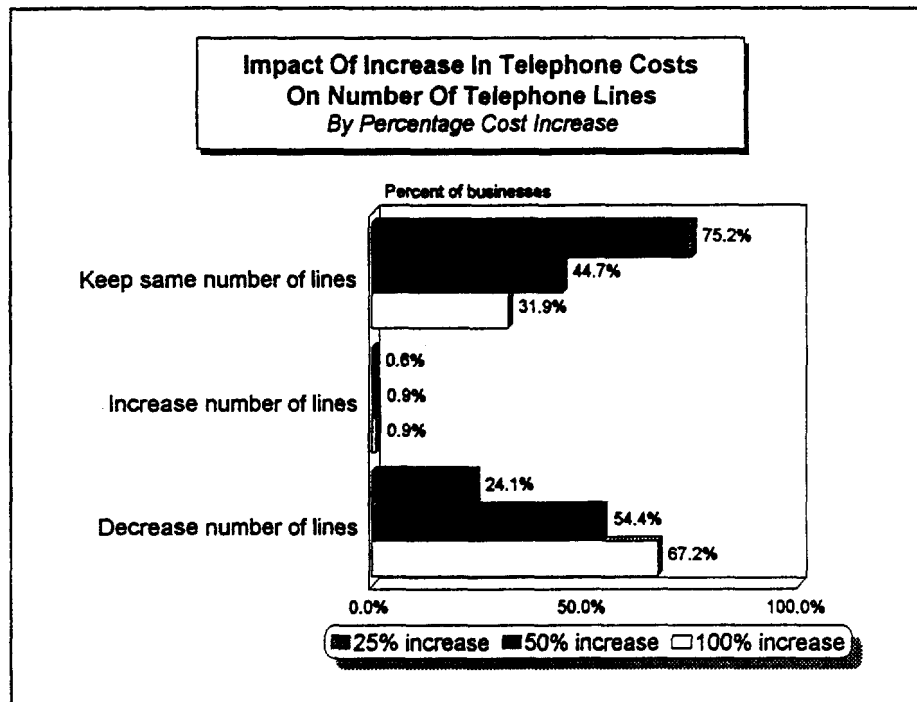
Nearly 91% of all businesses indicate such increases would have a moderate or major negative impact on their business livelihood. Some 61% report the impact would be major. One-in-three businesses state that such an increase definitely would force them to layoff staff in order to be able to pay for the increased rates and costs. Some 35% of urban-based small businesses and an identical 35% of rural-based small businesses report a 100% increase *would cause them to reduce the size of their workforce*. Another 25% from each group indicate that such an increase "might" lead to workforce reductions.

Given the typical monthly telephone bills of most small businesses, a doubling of those bills would be viewed as a major negative event and one that would require severe operational measures on the part of small businesses.

Summary of Impacts.

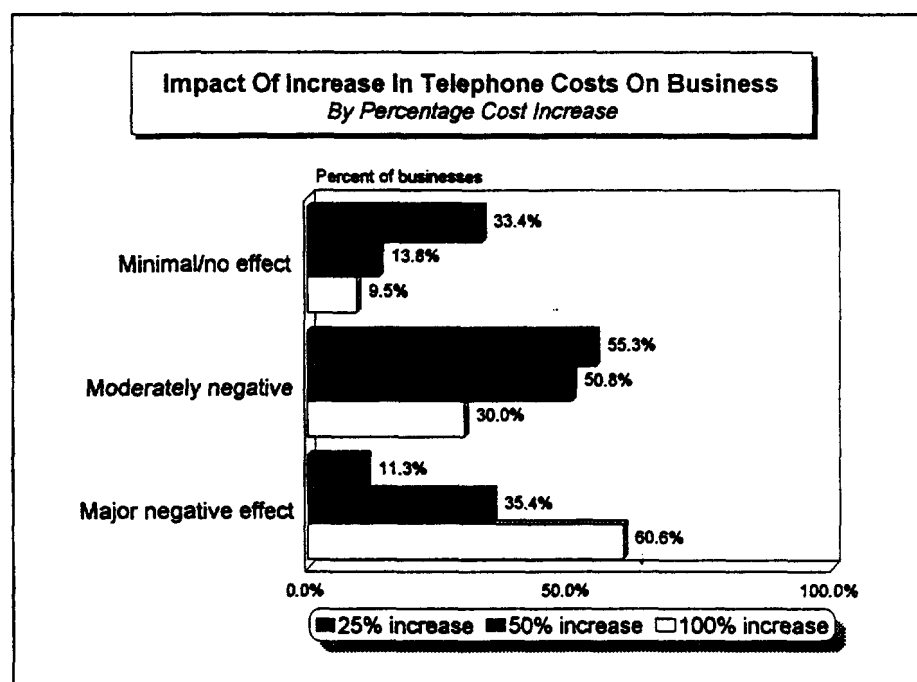
The following three tables/charts summarize the impact of the various increases of monthly telephone costs. The first table summarizes the impact on the number of telephone lines. The second table in the sequence summarizes the "economic impact" on businesses according to the amount of the increase. And, the final table summarizes the potential impact of increases on a small business' workforce.

Table 11: Summary Economic Impact of Increases in Monthly Telephone Costs on Number of Business Telephone Lines



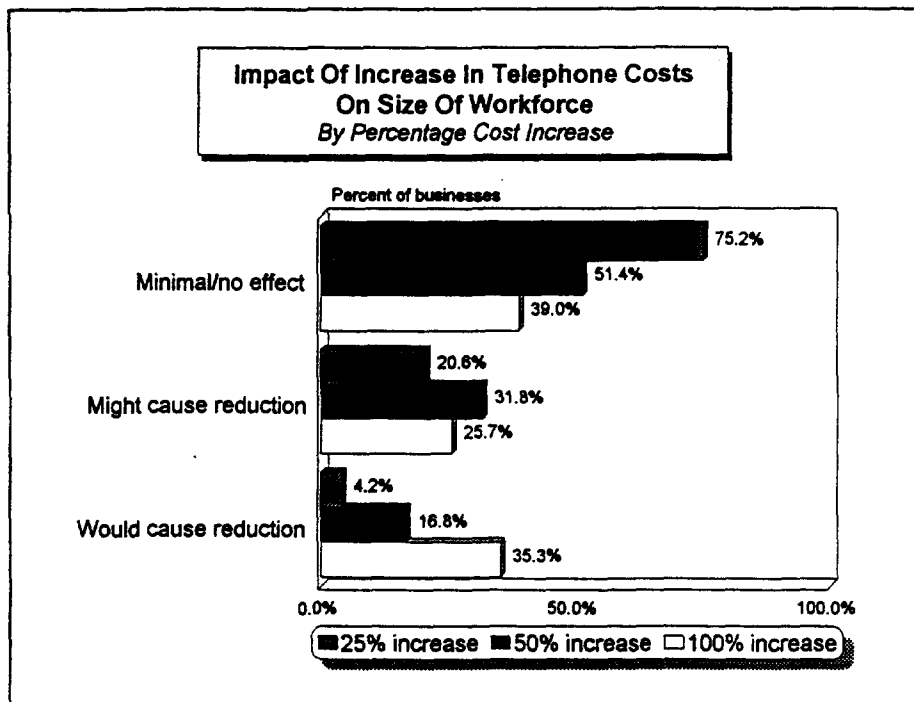
At all "increase" levels, there will be some perceived reduction in the number of business telephone lines. At 50% and 100% increase levels, the majority of businesses indicate they will be forced to reduce the number of lines by either two or three business telephone lines.

Table 12: Summary Economic Impact of Increases in Monthly Telephone Costs on Business Livelihood



At all "increase" levels, small businesses anticipate some moderate or even major negative impact on their business livelihood. The impact is envisioned by be severe at the 50% increase level and particularly dramatic at the 100% increase level. At this level, over 6-in-10 small businesses forecast major negative impacts to their business livelihood.

Table 13: Summary Economic Impact of Increases in Monthly Telephone Costs on Size of Workforce



Even at a 25% increase in monthly telephone costs, some 25%, or one-in-four small businesses indicate such might or would cause a reduction in their workforce.

A 50% increase in monthly rates absolutely would cause a workforce reduction in one-in-five responding small businesses.

A 100% increase in monthly rates would cause over one-in-three small businesses (35%) to layoff workers in order to have sufficient funds to pay the increased costs of telephone service.